



**Release to the Australian Securities Exchange**

20 October 2021

ASX Market Announcement Office  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

*Via electronic lodgement*

Dear Sir / Madam

**Adairs Limited 2021 AGM – Chairman's and CEO's Address**

Please find attached a copy of the Chairman and CEO addresses to be delivered at the Annual General Meeting to be held at 11:00am (Melbourne time) today, accompanied by a copy of the presentation to be made at the meeting.

This announcement has been approved by the Board of Adairs Limited.

Yours faithfully

A handwritten signature in black ink, appearing to read "Fay Hatzis". The signature is fluid and cursive, with a prominent initial "F" and a long, sweeping tail.

**Fay Hatzis**

Company Secretary

For personal use only



**Adairs Limited**  
**2021 Annual General Meeting**

**Chairman's address**

Good morning ladies and gentlemen. My name is Brett Chenoweth, and I am Chairman of the Board of Directors of Adairs Limited.

In response to government restrictions and the potential health risks arising from the COVID-19 pandemic, the Board determined to hold this year's annual general meeting virtually. Although we are not able to meet in person, I am pleased that we can come together virtually to update you on your company, conduct formal business, listen to any comments you may have and answer your questions.

It is now 11:00am, the appointed time for holding our 2021 Annual General Meeting. I am advised that a quorum is present, and I therefore have pleasure in declaring this meeting open. Thank you for attending.

Details about how shareholders can participate have been set out in the Notice of Meeting and Online Virtual AGM Guide which has been published on our investor relations website. Both documents are also available to view and download at the bottom of your screen. I will go through the technical and procedural matters for the AGM shortly.

Before proceeding with the formal business of the meeting, I would like to advise that I am joined today by all of my fellow Directors and also all of the senior leadership team including Ashley Gardner, our Chief Financial Officer.

They, like you, are participating virtually.

From the Board we have in attendance:

- Trent Peterson, Non-Executive Director and Chair of our Remuneration Committee
- Kate Spargo, Non-Executive Director and Chair of our Audit and Risk Committee
- Kiera Grant, Non-Executive Director;
- Simon West, Non-Executive Director;
- David MacLean, Non-Executive Director
- Mark Ronan, Executive Director, Managing Director & CEO
- Michael Cherubino, Executive Director, Property and Business Development; and
- Fay Hatzis, our Company Secretary.

We also have Joanne Lonergan, our engagement partner with the company's auditor, Ernst & Young. Joanne will be available to answer any questions on the audit and accounts at the appropriate time.

For personal use only



We also welcome the team from the company's share registry, Link Market Services limited.

The agenda for today's meeting is that following my introductory remarks and review of the company's financial performance during FY21, Mark Ronan, the Managing Director & CEO, will present his report.

We will then proceed with the formal business of the meeting to receive and consider the financial report of the company and to then vote on the resolutions.

I'll now talk through the procedural matters for this meeting.

### **Shareholder questions**

We are only taking questions from shareholders today, or their representatives.

All telephone listeners are currently on mute. If you wish to ask a question over the phone you should press "star 1" on your keypad when the relevant resolution for your question is put to the meeting.

If at any time you no longer wish to ask your question, simply press "star 2". If you also joined the meeting online, we ask that you mute your computer while you ask your question.

Once your question has been answered you will be returned to mute.

For those who wish to ask a question using the online meeting platform there is an "Ask a question" button located at the top of your screen. You can submit questions at any time, you do not need to wait until the relevant item of business. We encourage you to submit your questions as soon as possible.

We will then seek to address your questions during the discussion on the appropriate item of business. We will endeavour to answer as many questions from shareholders as we can.

Questions sent via the online meeting platform will be moderated to avoid repetition, and if questions are particularly lengthy, we may need to summarise them in the interests of time. I ask that all questions be directed to me as Chairman.

### **Voting procedures**

Voting today will be conducted by way of a poll on all items of business. In order to provide you with enough time to vote, polling on all items is open now.

To vote you simply click on the "Get a voting card" button at the top of your screen. This will bring up the list of resolutions and present you with voting options.

Voting for all resolutions will remain open until 5 minutes after the meeting to provide eligible attending shareholders with sufficient time to cast their vote. The final outcome of each resolution will be released to the ASX and posted on our investor relations website later today once voting has closed and numbers tallied.

For personal use only

Any appointed proxy who has been given discretion on how to vote should vote in the same manner. Any appointed proxy that has been directed to vote in a certain manner and has no discretionary votes to cast, does not need to vote as those votes will automatically be counted in accordance with those directions.

If you experience any difficulties with the online platform, the help line number is displayed at the top of your screen.

## **FY21 review**

Turning now to my review of FY21.

As I wrote in the annual report, the 2021 financial year saw COVID-19 continue to impact the lives of our customers, our team and the broader community. Against this challenging backdrop Adairs again produced a record year in terms of both sales and profitability.

Group sales were up 28.5% to nearly \$500m with online sales representing more than 37% of total sales, driven by great results across both Adairs and Mocka with all channels delivering strong results.

The exceptional sales and gross margin results combined with disciplined cost management delivered strong operating leverage allowing both brands and the Group to achieve a record profit result with underlying EBIT of \$109.1m, up 97.3% on the prior year.

While COVID-19 has brought focus to the Home category our success in FY21 is equally attributable to the strategic pillars the Board and management team set prior to COVID-19, underpinned by our vertically integrated omni-channel model, our unique product and our amazing team who continue to delight and inspire our customers every day. Mark will expand on this further in his report.

As shareholders will be aware, we chose to return the net benefit of our FY21 JobKeeper wage subsidy to the Australian government. JobKeeper was a welcome and necessary initiative, helping employers and employees remain connected during a period of significant economic disruption. Ultimately however, given our success in navigating this period, we felt it right to return this benefit to the government.

We successfully executed on a number of strategic initiatives including the building of our new National Distribution Centre. This was a logistically complex project which I am pleased to report has been undertaken seamlessly by our supply chain team working with our new operator, DHL.

In June we announced an agreement with the Mocka founders to finalise and bring forward the settlement of the deferred consideration component of the Mocka acquisition. The original sale and purchase agreement provided for the deferral of 35% of the consideration to be paid in FY21 and FY22 based on a formula linked to the actual EBIT in those years. Bringing this forward enables us to continue to invest in the short-term to realise Mocka's long-term potential, a period which lay beyond the time horizon of the founders.



The Board declared a final fully franked dividend of 10.0 cents per share. This takes the total dividend payout for the year to a record 23.0 cents per share.

Our balance sheet finished the year in a strong position with cash of \$26 million and no outstanding debt. Since then, we have paid the Mocka founder's deferred consideration and the final dividend using existing cash and term debt facilities. Given the strong cash generation of the business we expect to finish the current financial year with little or no debt.

Finally, we provided the market with a trading update this morning covering the first 16 weeks of FY22. This showed an overall 8.5% decline in total sales over the same period last year which was completely due to the mandated closure of the majority of our stores in NSW and Victoria for almost all of that period.

On a like for like basis (adjusting for these forced store closures) sales are in fact up 8.2% across the Group and pleasingly our NSW stores have reopened in the last fortnight and are trading strongly. We anticipate a similar result when the Victorian metro stores re-open which should happen in the next few weeks.

We are well stocked, our product range is resonating well with customers, and importantly we are ready to capitalise on the important Christmas trading period and the sales leading up to Christmas.

I remain confident that Adairs has the right strategies, team and product offering to continue to deliver growing returns for the benefit of all shareholders.

I will now hand over to Mark Ronan, the Managing Director & CEO, to present his report.

Thank you.

### **CEO's address**

Thank you Brett.

As Brett has noted, the 2021 financial year was another exceptional year for the Group. The financial results achieved by Adairs and Mocka continue to highlight the strength of our brands, the hard work of our teams and our culture that sees us look to delight customers every day, providing us with the attitude and the ability to adapt to the ongoing challenges from COVID-19.

The Group achieved exceptional sales and profitability growth across both Adairs and Mocka. While this came on the back of a trading environment that was supported by consumers additional focus on their home as a result of the COVID-19 pandemic, we capitalised on this environment by focussing on our underlying strategies.

For personal use only



When I think about our strategies, they are best measured by a few key drivers that have historically delivered year on year sales growth but which, to my mind, are sometimes harder for our shareholders and investors more broadly to fully appreciate.

#### **THE RELATIONSHIP BETWEEN TOTAL SALES AND LINEN LOVERS MEMBERSHIP LEVELS**

The graph on page 6 of the presentation shows that the correlation between total Adairs sales and the number of Linen Lover members is very strong with every new member adding approximately \$400 in sales each year. In FY21 the Linen Lover membership base increased by approximately 14% and members who shopped with us spent on average 10% more than they did in FY20. This saw total Linen Lover sales for the year grow to represent more than 80% of Adairs total sales.

With the strength of the trading environment, we ensured the team was highly focussed throughout FY21 on signing up Linen Lovers as we know this gives us the best opportunity to build a relationship with that customer and significantly increases the chance of them returning to shop with us in the future.

Going forward, member retention initiatives and the facilitation of online sign-ups through the upgrade of our digital platform in FY22 will support ongoing growth in our Linen Lover membership base.

#### **THE RELATIONSHIP BETWEEN STORE SALES AND RETAIL FLOOR SPACE**

Our FY21 results have again demonstrated that store sales continue to be highly correlated to increases in our gross lettable area, or GLA.

Over the course of FY21 Adairs delivered strong sales growth through a combination of opening new stores in areas where we were not well represented, the continuation of our store upsizing program and closing smaller stores. When I look at the past 4 years, we have added 9 new stores on a net basis or 5% which has resulted in an increase in GLA of 26% and store sales of nearly 30%.

This is a reflection of the success of both our new stores and the upsizing program as these larger stores provide us with the opportunity to showcase more products and categories, operate at lower rent per square meter and wages to sales ratio resulting in a higher store contribution margin. Importantly, the new stores not only deliver strong sales and profit growth but also drive an increase in online sales in those catchment areas.

#### **AN INCREASE IN OMNI-CHANNEL CONVERSION**

More customers were comfortable shopping across both channels than ever before, with more than 50% of Linen Lovers shopping across channels. Whilst mandated store closures were one driver of this, we saw customers happy to shop both in store or online depending on the circumstances at that time.

For personal use only

# adairs

Ultimately, we know the most important driver in creating a multi-channel customer is building their trust and loyalty to the brand. We saw strong sales growth driven by the increase in multi-channel shoppers as they on average spend more, which is driven by their engagement with the brand and their comfort in shopping with us how they want, when they want, and where they want.

These highlight the success of our omni-channel mindset and model, and gives us confidence in our future growth coming from a continued focus on strategies that drive Linen Lover growth, profitable physical space growth and an ever-evolving digital experience.

The Adairs model aims to deliver exclusive designed and developed product through our vertical supply chain. The total addressable market is large with management estimating the market to be over \$15 billion in Australia, of which furniture comprises approximately \$10 billion.

By offering our exclusive product across multiple channels it allows us to maximise and fully leverage the benefits that come from our Linen Lover program, back-end infrastructure and highly capable team. This provides Adairs with the opportunity to offer a seamless, inspirational customer experience across channels resulting in high levels of customer acquisition, retention and preference. Given the size of the market our opportunity to continue to grow market share by focussing on these strategic pillars is high, enabling us to deliver strong EBIT growth and margins for shareholders over the medium term.

With this in mind you can see how our five key drivers of future growth highlighted in the presentation build out this model to enable us to capitalise on the growth opportunities for both the Adairs and Mocka brands.

## **OUR PROVEN AND RESILIENT BUSINESS MODEL**

If I start with our proven and resilient business model.

The strong brands that we own, our vertical supply chain philosophy and our direct-to-consumer store and digital channels, allows us to develop and control the expansion of our product offering and customer base. This enables us to be more agile and responsive to changing customer needs through the delivery of exclusive on-trend product at higher margins.

Our strong brands combined with our large and loyal customer base delivers a lower cost of customer acquisition and provides significant opportunity to enhance and build upon our relationships with our customers.

The combination of omni-channel retail with loyalty remains a key growth driver. Adairs is focussed on continuing to grow its market share and the best way to do this is to better understand our customer. This will enable us to grow our overall customer base whilst increasing our share of spend from our existing customers. Linen Lovers is the program through which we both provide value to our members and gain a better understanding of them, allowing us to achieve this.





The Linen Lover program today accounts for more than 80% of Adairs sales and we have increased our investment in data analytics capability to enhance our ability to build upon the value of this program for our customers and deliver ongoing returns for Adairs.

At Mocka we continue to review the opportunity to create a loyalty program that is relevant to our customers. We have focussed on growing our email subscribers with us adding more than 30% to this database over FY21. This provides us with the opportunity to re-market to these engaged customers at significantly less cost than basic digital marketing.

### **OUR DIGITAL TRANSFORMATION STRATEGY**

Our focus on becoming an omni-channel leader is supported by our digital transformation strategy. We are investing in enhancing our digital platform and team to deliver an improved customer experience, driving customer acquisition and increased customer conversion.

We are starting from a strong position and have seen significant growth in both businesses in customers shopping online.

We continue to think about how we deliver customers a superior and more flexible shopping experience and are actively exploring and trialling new technologies including:

- Instore devices to showcase range
- Customer traffic measurement and analytics, both in store and online; and
- Online chat

Adairs will continue to build upon its digital capabilities by upgrading the online platform in 2022 to enable a more seamless omni-channel customer experience and see us introduce additional personalisation and basic items such as click and collect and express delivery.

Mocka is continuing to build upon its digital capabilities after successfully upgrading their online platform in FY21. This gives us a solid foundation upon which to grow over the coming years and enables us to trial new technologies in the short term.

We will continue to trial different technologies to ensure that any significant investment delivers an enhanced customer experience leading to profitable sales growth.

The combination of Adairs and Mocka allows us to capitalise on two great brands with well-developed digital platforms. The strong online sales growth achieved by both brands now see 37% of total Group sales coming from online, positioning us well to win share as traditional store only customers transition to omni-channel shoppers.

### **MOCKA GROWTH**

The addition of Mocka to the Group increases our exposure to the fast-growing online segment of the market with the significant benefits of vertical integration.

For personal use only





Mocka's sales growth in FY21 was driven by continuing to build out our product offering, enhancing the customer experience through initiatives such as the introduction of augmented reality to help customers visualise the product in their home and continuing to build brand awareness as highlighted by the 35% increase in website sessions. At Mocka we also continued our focus on building up our customer database with us now having more than 550,000 email subscribers available for us to both showcase our new product and deliver promotions to.

Based on Mocka achieving the same penetration in Australia as it has in New Zealand, there is the potential for Mocka Australia to exceed \$100m in sales revenue simply based on population size.

Mocka provides the Group with greater exposure to the furniture segment and provides the opportunity to reach a different customer through "design led, value for money" differentiated product.

With a significant market to grow into we continue to invest in product category expansion. Whilst this has been more challenging due to travel restrictions the team have adapted to these conditions and continue to work on enhancing our width and depth of offer at Mocka. This will enable us to provide customers with a more compelling offer and, in time, allow customers to fit their entire house out with Mocka product.

We are also investing in additional talent to supplement the Mocka management team and are excited to have Vanessa Brennan recently join the Mocka team as CEO. Vanessa brings a wealth of retail and ecommerce experience to Mocka, and her appointment combined with ongoing investment in additional talent will ensure we are well placed to execute on our strategy of building market share by conveniently delivering differentiated stylish and functional product at a great price.

#### **OUR DIGITAL CHANNELS ARE ENHANCED BY OUR STORE NETWORK.**

All of our stores are profitable, and our store formats deliver strong contribution margins.

Larger stores are more profitable and there is a strong pipeline of new store and upsized store opportunities for us to capitalise on. As I mentioned earlier, these larger stores give us the opportunity to showcase more products and categories and enhance the customer experience.

With a highly profitable store portfolio we remain focussed on deliberately creating flexibility within our store leases through relatively short lease terms, allowing us to strategically manage our store portfolio through opening new stores, upsizing existing stores, obtaining more favourable terms on renewals or closing stores that simply do not meet our requirements.

For personal use only



## **OMNI-CHANNEL SUPPLY CHAIN**

And finally, our omni-channel business model needs to be supported by an omni-channel supply chain. Construction of the National Distribution Centre in Melbourne was completed in August and the last six weeks has been spent transitioning stock across into it. COVID-19 has significantly impacted the transition and led to operational challenges that have delayed customers online orders. Given this experience and the potential impact COVID-19 could have on our supply chain going forward we have maintained one of our existing DC's to be able to better manage the COVID-19 exposure risk over the critical Christmas trading period.

The consolidation of our multiple distribution centre operations into a single national facility will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both our customers and stores during peak trading periods, at a lower cost. We still expect to realise \$3.5m in annual savings over our existing operations once we complete the transition and are fully operational which is likely to be early in the new year.

The National Distribution Centre is the foundation for Adairs' integrated omni supply chain strategy to better enable customers to shop Adairs how, where and when they choose and has the capacity and flexibility to support Adairs growth well into the future across all channels.

## **OUTLOOK**

The current trading environment is operationally challenging due to the ongoing impact COVID-19 is having across the Australian economy. As a Group we remain focussed on dealing with the ongoing COVID-19 challenges including government mandated store closures, vaccination requirements, impact of 14-day isolation periods combined with international and domestic supply chain challenges.

Electing to bring stock in early, together with carrying additional inventory in core lines and being prepared to pay the higher than usual freight costs has ensured we are in a strong inventory position across the Group.

The re-opening of our NSW stores last week has delivered strong sales results, giving us early insight into the strength of the demand from the consumers as we come out of lockdown. We expect to see continued strength in retail stores as customers come out of lockdown and elect to shop in store given the ongoing domestic freight challenges.

There is no doubt that these domestic freight challenges are significantly impacting retail customers and their online experience across all sectors. Our customers have been significantly impacted by freight delays which has led to a disappointing delivery experience for our customers and increased costs. We are seeing, and expect to continue to see, customers move back towards stores over this coming period to guarantee their purchase, in particular in the lead up to Christmas.

For personal use only

Whilst there are a number of short-term challenges currently both the Adairs and Mocka teams have delivered good product ranges that are resonating well with our customers. We continue to see a number of key drivers that will support consumer demand over the medium term.

When thinking about this from a medium-term view we know that household savings remain elevated with households accumulating circa \$137 billion of incremental savings over the last 18 months which is almost equal to 1 years' worth of discretionary retail spend. The housing market continues to grow strongly with churn returning to the market delivering a tailwind for household goods and ongoing travel restrictions continuing to support customers transferring a portion of this travel spend towards household improvement, further supporting the Home category.

We expect to continue to benefit from the current environment which has seen customers develop an increased focus on their homes. Our experience tells us that this focus doesn't quickly disappear as they often continue to work through their home updating one room at a time.

Given the inherent uncertainty in the market today the Board do not consider it appropriate to provide full year guidance at this time.

Before I finish, I would like to thank a few people.

I would like to start by thanking the Adairs and Mocka customers. We get the privilege of being a small part in helping them creating a home they love. Our aim every day is to continue to inspire and delight them and we thank them for their ongoing support.

I would also like to thank the Adairs and Mocka teams. The last 18 months have seen us come through some very challenging times and disappointingly as I give this presentation today, we still have a significant number of team members on stand down whilst we are in lockdown. Our teams are passionate about our businesses, and this continues to shine through in the way they remain focussed on delighting our customers. I would like to thank all team members across Australia and New Zealand for their hard work and dedication.

I remain confident that with this great team we are well placed to not only continue to manage the current conditions but put ourselves in a position to capitalise on the new and evolving retail environment, delivering shareholders ongoing profitable growth.

That concludes my report.



**Contact:**

Jamie Adamson  
Head of Investor Relations  
P: +61-3 8888 4500  
M: +61 (0) 437 449 935  
E: [jadamson@adairs.com.au](mailto:jadamson@adairs.com.au)

**About Adairs Limited**

*Adairs Limited is Australia's largest omni-channel specialty retailer of home furnishings and home decoration products. We own and operate two businesses in the category, Adairs and Mocka. Both businesses are design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand. Adairs head office is in Melbourne, Australia.*

For further information visit our investor relations website [www.investors.adairs.com.au](http://www.investors.adairs.com.au)

**About Adairs**

*Adairs is a leading specialty retailer of home furnishings in Australia and New Zealand with a national footprint of stores across a number of formats and a large and growing online channel. Our strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior customer service.*

For further information visit [www.adairs.com.au](http://www.adairs.com.au)

**About Mocka**

*Mocka, a wholly owned subsidiary of Adairs, is a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand. Mocka sells its own exclusive, well designed, functional and stylish products in the Home Furniture & Décor, Kids and Baby categories. Delivering great product and compelling everyday value-for-money is core to the Mocka customer proposition.*

For further information visit [www.mocka.com.au](http://www.mocka.com.au)

For personal use only